



Annual Report 2004

RMK in brief

Approximately 37% of Estonian forests belong to the state. The state forests of Estonia are maintained and managed by the State Forest Management Centre (RMK). The functions of RMK include balanced management of the forest resource of the state by ensuring a good environmental state of the forests, access to forest-related recreation and nature education for the people of Estonia, stable raw material supplies for the forest industry and revenue from forests for the state. RMK has more than 1,200 employees. The branch offices of the organisation are located all over Estonia with the head office being based in Tallinn. The main activities of RMK are related to forest and hunting management, recreation and nursery management and provision of consulting services in the field of forestry. Since 2002, the activities of RMK have been in compliance with the ISO 14001 and FSC sustainable forestry standards.



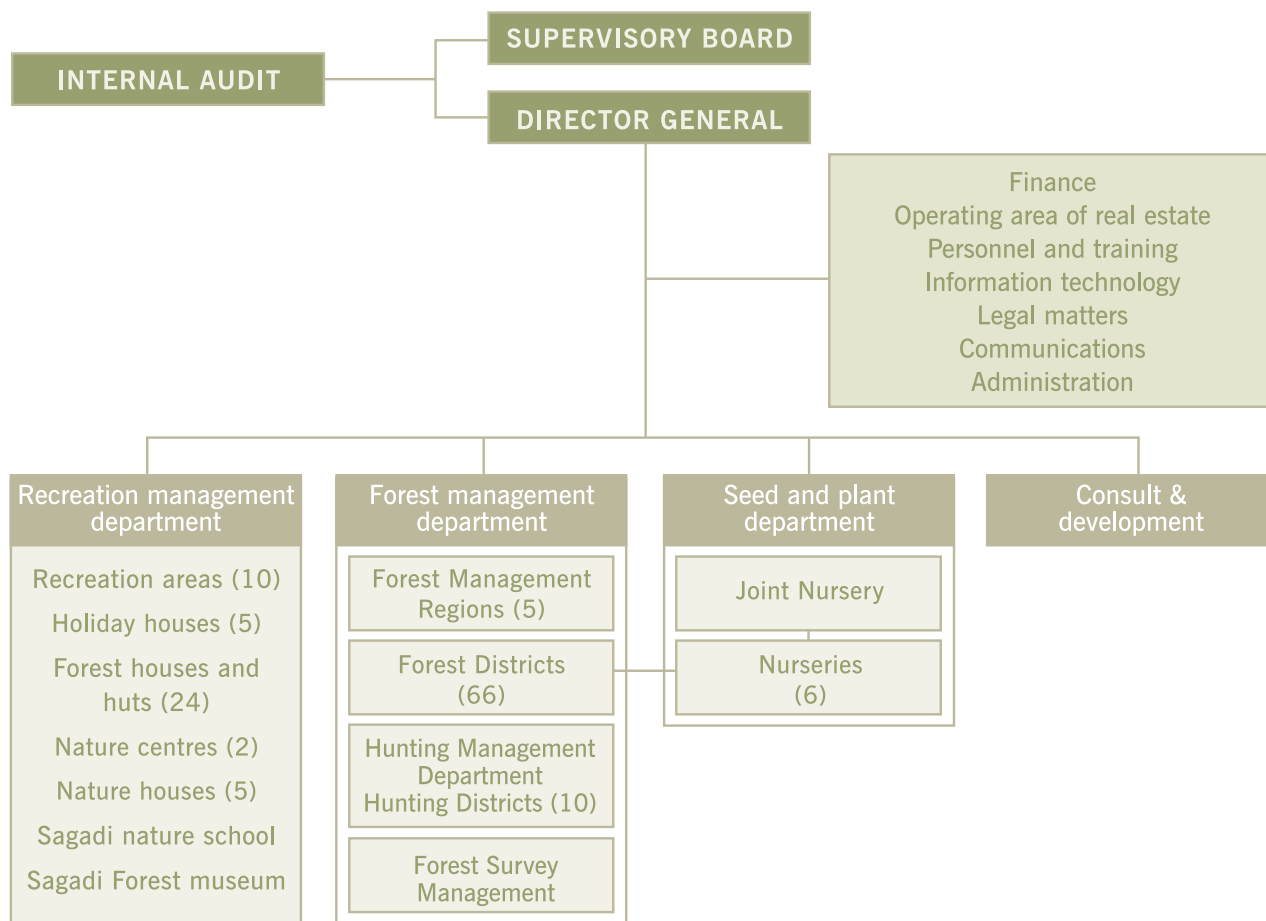
2004 in numbers

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|--|-----------|---|---------|
| ● Total area of state forest land (ha) | 1,063,000 | ● Volume of reforestation work (ha) | 6,792 |
| ● Number of forest districts | 66 | ● Number of plants used for reforestation (million) | 11 |
| ● Number of employees | 1,226 | ● Volume of work performed for ensuring the right of public access and promotion of environmental awareness (million EEK) | 15 |
| ● Realised net turnover (million EEK) | 978 | ● Number of visitors of recreation areas of RMK | 700,000 |
| ● Operating profit (million EEK) | 95 | | |
| ● Revenue from forests transferred to state budget (million EEK) | 179 | | |
| ● Total investments (million EEK) | 123 | | |

Contents

Organizational structure	4
Vision, mission, main values	5
statement of chairman of supervisory board	
Development for benefit of forests and people	7
statement of director general	
Continuing in chosen direction	9
Main events in 2004	11
environmental protection and development	
Environmental aspect is integral part of every activity of RMK	14
forest management	
RMK is a prudent manager of forests	16
hunting management	
Taking care of wild animals	20
recreation management	
Informed recreation in forest	24
nursery management	
In the name of new forests	28
consulting services	
Management of forestry processes from idea to implementation	32
financial statement	
Main economic indicators of RMK, 2000–2004	36
Balance sheet	38
Income statement	39
Auditor's report	40

Organizational structure



RMK operates within the area of government of the Ministry of the Environment



Development for benefit of forests and people

The year 2004 was the 6th year of operation for RMK. At the time of the foundation of RMK, various interest groups often raised the question whether the existence of a single state forest manager was necessary in Estonia. Today, no-one asks that question any more. The strong organisation which makes profit for the owner, provides versatile services and has a number of good partners has proven itself. In six years, RMK's turnover has risen by nearly 25% and the profit has increased five times. Among the new member states of the European Union, RMK gives the state the biggest direct profit per hectare.

Best value for each part of forest

RMK shapes forests as ordered by the society while ensuring the best value for each part of the state forest. There are forests where the plant community is determined mainly by natural processes with no direct human intervention. At the same time, there are forests in the state forest, which are intensively managed and where the main activity is timber production. However, compliance with good silviculture practices is guaranteed in each part of the forest managed by RMK. This is also evidenced by the international FSC sustainable forest management certificate issued to RMK.

Ensuring the best value for each part of the forest requires knowledgeable approach and skilful resource planning on the part of the employees of RMK. In this way, each part of the forest receives the necessary amount of attention and fulfils its functions best. For years the investment abilities of RMK have maintained the planned volume and ensured versatile use of forests. In six years, RMK's investments in the improvement of fixed assets have increased by more than four times.

Forests are for everyone

Varied and valuable forests are appreciated by all users of forests, from hikers to berry-pickers and timber producers to conservationists. We all need a place where we can relax comfortably and peacefully. Over the years, RMK has developed a versatile infrastructure for forest-related recreation, making it possible for all countryside lovers to find a suitable hiking trail or choose a recreation area to their liking. More and more people in Estonia discover and visit RMK's recreation areas and houses located in the country. In six years, RMK's investments in the right of public access have increased by nearly 40%.

RMK's activities in promoting environmentally sustainable lifestyle are noteworthy. RMK's day-to-day activities in promoting environmentally sustainable way of thinking include creating various opportunities for studying wildlife, providing relevant information and organising forest-related events aimed primarily at young people.

The forest is the best place for working and relaxing. RMK is a prudent manager of state forests and wishes to share that feeling with all the friends of our organisation and state forests. Let's all manage state forests prudently!



Andres Onemar

Chairman of Supervisory Board of RMK



Continuing in chosen direction

During its years of operation, RMK has undergone a number of fundamental changes. Yet the main objective of the organisation has remained the same – to ensure varied use and long-term preservation of the state forests. At the end of 2004, the Supervisory Board approved the development plan of RMK for 2005–2008, which increases confidence in the future and sets out more specific plans for the development of the organisation in these years. The next step is to take focused action to implement all the plans.

RMK – strong organisation

In 2004, RMK underwent several changes. The new Director General started work in February, followed by the Director of Forest Management in April and the Chief Financial Officer in June. Being an established and strong organisation, RMK successfully survived these changes and continued its activities. The year 2004 was a success also in terms of economic performance as the results were better than planned in the budget.

In summer, RMK's own forest survey and management planning officials started work. The objective of launching forest survey and management planning is to describe the changes occurring in the forests as soon as possible to ensure continuous updating of forest data. Accurate information increases the quality of forest management decisions.

Estonians planted trees

The year 2004 will definitely be remembered as the year of planting trees. In the tree planting campaign organised in spring, participants in the Song Festival with many other volunteers planted one million trees in two weeks to celebrate the accession of Estonia to the European Union.

Although each year ca 12 million new trees are planted in the forests managed by RMK, the "million trees" project with its more than 20,000 participants was extraordinary. RMK successfully organised all the work, and with the help of experienced instructors the people new to the trade mastered the skill as well. In its own way the weather also favoured the campaign since rainy summer was conducive to the plants' growth.

Proportion of protection forests on increase

Estonia's accession to the European Union influences all the activities of RMK. Upon accession, the directive on the conservation of wild birds and nature became applicable to us as well. The Government approved *Natura 2000* – the list of bird and nature conservation areas of nature reserves network. *Natura 2000* aims at protecting vulnerable or endangered species and their habitats.

After formation of the protection regulations the area of RMK's commercial forests will decrease by 4%, while protected and protection forests will increase by the same amount. According to the new regulations, people may not interfere with the development of nature in protected forests and economic activities in protection forests are limited.

Timber market conducive to development

As a result of continuing demand for high-quality timber and increasingly fierce competition in the raw materials market, the timber prices rose notably in 2004. The rather steep rise in prices in the second half of the year resulted from lack of raw material caused mainly by problems in logging due to rainy summer and autumn.

The price level of Estonian timber is catching up with international prices but due to the limited nature of the timber market, Estonia will not become a key player in timber price formation. The stable price level of timber allows for increasing expenditure on silviculture – on reforestation, tending of young growth and thinning. A greater emphasis on silviculture guarantees existence of high-quality forests in the future as well.




Summing up the activities of 2004, we can firmly say that it was a busy year. An overview of the activities of RMK is provided in this yearbook.



Ülo Viilup
Director General of RMK

RMK is active all over Estonia



	Area of state forestland managed by RMK (1,063,000 ha)		Recreational areas of RMK (10)		State hunting districts of RMK (10)
region	Forest management regions of RMK (5)	forest district	Forest districts of RMK (66)	nature centre	RMK nature centre information desk (7)

Main events in 2004

- Between 19-23 January, the staff members of RMK successfully participated in the winter games and skiing championships of European forestry workers held in Albertville, France. The team came back with a gold medal. According to the unofficial overall results list, Estonian forestry workers finished in 8th place this time.
- At the beginning of the year, the website was updated and information about 66 forest districts of RMK was made available to the public at www.rmk.ee/metskonnad
- At the beginning of February, the new head of RMK started work – the Supervisory Board of RMK appointed Ülo Viilup as the new Director General of the organisation. Mr. Viilup previously worked for the Ministry of the Environment in the area of nature conservation and forestry.
- Between 19-20 February, forestry workers held their winter games at the Jõulumäe health centre. The overall winner of various athletic events was the team of the north-east region of RMK's forest management department.
- In February, the annual forestry and environmental auditing was carried out in RMK. The environmental audits confirmed the compliance of the activities of RMK with the ISO 14001 and FSC sustainable forestry standards.
- In March, an observation tower erected in cooperation with the Estonian Ornithological Society was opened at Tornimäe or Sõjamäe on the Rannametsa dunes in the Pärnu county. It is possible to see as far as 50 km from the top of the tower.
- In April, RMK participated in the 12th forest week "Let there be at least one forest". For the first time, the programme of the forest week included "A Day of Studying

Ulvar Kaubi,
Marketing Manager
of the Forest Management Department:

Plant your own tree –
birth, new beginnings,
small becomes big



Forests are an integral part of Estonian culture just like the Song and Dance Festival. People have affected forests with their activities for hundreds of years. Forests offer protection, food and comfort. State forests have always had managers and today the manager is RMK. The manager has the obligation to renew forests, which has always been done. Last year, reforestation received a great deal of attention due to the tree planting campaign. The idea of the executive producer of the Dance Festival Kalev Järvela to communicate the message of all the participants in the festival by planting trees developed into an activity which was enjoyed by all the people involved. All volunteers who participated in the campaign were just as eager to plant their own tree. We are interested in keeping forests in good condition until small trees become big. Tending of forests is hard work for forest owners but also very rewarding. The planting campaign was a meeting place for people from different walks of life who worked together to start a new forest life cycle. They did a good job!

main events in 2004

Outdoors”, the purpose of which was to encourage schools to organise more classes outdoors.

- In spring, the participants in the Song Festival and volunteers planted a million trees within two weeks to celebrate Estonia's accession to the European Union and continuation of the 135-year-old tradition of Song and Dance Festivals. More than 20,000 people participated in the tree-planting campaign.

- In May, the annual animal photo contest “Bloodless Hunt” was held at Nõva for the 7th time. 29 wildlife photographers from Estonia participated in the contest. This year, the animal to be hunted with a camera was lynx.

- On 1 June, RMK opened its information centres at the Tallinn Zoo and at the Kabli Centre in the Pärnu-Ikla recreation area where people can get information about opportunities for spending time in state forests and advice on the sustainable use of nature.

- At the beginning of summer, a wild game meat processing plant was opened at RMK's Mahtra hunting complex where the meat of roe deer, elk and wild boar will be cut and packaged.

- Between 17–18 June, more than 500 forestry workers participated in the 37th vocational competitions for forestry workers organised on the initiative of RMK at Varemurru, Pärnu county. At the traditional meeting, various vocational competitions were held in order to find the best forestry workers. Among other events, RMK organised the Estonian championships for loppers and fellers.

- At the beginning of August, the Estonian Forestry Workers Trade Union and RMK signed a new collective agreement which regulates labour relations between the parties until 2006. In the new agreement, special attention is paid to social guarantees and the working environment.

- In October, the annual meeting of foresters was organised

Ülle Pällo,
Personnel Manager:

RMK's main asset is its staff



RMK's main asset is its staff and RMK's development depends on their competence and dedication. As a rapidly changing and developing organisation, RMK expects its employees to constantly develop as well, which is why we provide training for our staff every year.

The main areas of training in 2004 were information technology, management and team work and the working environment. RMK launched a specific advanced training and development programme for managers aimed at organisational development and business management. In 2004, RMK's staff defined the main values of the organisation – integrity, positiveness and teamwork.

in Narva-Jõesuu. More than 100 people attended the meeting.

- In autumn, 1100 volunteers collected 105 tonnes of trash from forests in the framework of the "Cleaning of the forests" campaign organised for the fourth time.
- In November, the new wooden office building of RMK's Triigi forest district was completed. The unique forest district building designed by architect Aivo Schults was entered in the best wooden building of Estonia competition.
- At the end of 2004, RMK presented a multimedia CD in the House of Tourism in Tallinn, which for the first time

in Estonia contains a comprehensive collection of information about opportunities for spending time in state forests and protected areas.

- Before Christmas, RMK together with Statoil Estonia and the Estonian Film Foundation continued the lovely tradition of giving Christmas presents to all Estonian children's homes and providing them with Christmas trees from state forests.
- At the last meeting of the year, the Supervisory Board of RMK approved the development plan of the organisation for 2005–2008, which sets measurable goals to RMK and outlines the necessary strategies for achieving the goals.

Silvia Rõigas,
Communications Manager:

Openness and systematic approach important in provision of information



The objective of RMK's communications activities is to inform the general public about our versatile activities in the management of state forests as well as to provide various interest groups with necessary information. What seems a simple task at first is not always easy to perform. A large organisation has very many different interest groups whose expectations and need for information are different.

For objective assessment of its communications activities, RMK regularly carries out communication surveys. In December 2004, the third communications audit was completed, which provided feedback on the movement of information inside RMK and outwards with respect to different interest groups.

Today we can say that RMK regularly communicates with the public and its cooperation partners and has a say in important issues related to forestry. Over the years, RMK has become a more open organisation. For the fifth year, RMK has published its monthly newspaper *Metsamees* (Forestry Worker), which has become very popular with both the staff of RMK and readers outside the organisation. Positive feedback on communication activities was provided also by the competition "Public relations campaign 2004" which selected the campaign "Plant your own tree!" supervised by RMK as the best project of the business sector.

Olev Lillemets,
Environmental and Quality Manager:

Environmental aspect is integral part of every activity of RMK



Environmental work has become an integral part of everyday activities of the different divisions and units of RMK. RMK's environmental friendliness is evidenced by the fact that RMK continues to hold the ISO 14001 certificate of environmental management and FSC certificate of forest management.

When these certificates were formally awarded to RMK in winter 2002, many felt that the work had been done – the certificates were on the wall and the auditors satisfied with our management system. In reality, it is necessary to continuously develop the management of both the environment and the whole organisation and work in a planned and systematic manner. Auditing carried out in spring and autumn 2004 confirmed the compliance of RMK with the requirements of the aforementioned standards – environmental sustainability is increasingly a standard way of thinking in our activities and therefore an integral part of the organisational culture of RMK.

The most important event of 2004 for me was drafting the development plan of RMK, which served as the basis for the establishment of the integrated management system of our organisation, taking into account the principles of quality management and management of the working environment in addition to the requirements of environmental management and FSC.

The process of the preparation of the development plan started at the beginning of 2004 when, in the course of a number of seminars, the managers of the different levels of RMK developed the mission, main values and general objectives of the organisation. This was followed by the formation of working groups for different areas and work during summer and autumn aimed at the development of the objectives and performance indicators for all main and supporting areas of activity of RMK.

The document which contains 92 pages and was approved by the Supervisory Board of RMK on 20 December, sets out a very specific course of development for the organisation over the next four years. What would be the optimum felling volume in state forests in the coming decades? How to ensure effective renewal and maintenance of forests? How to better protect the environmental values of state forests and manage recreational areas? What is the financial forecast for RMK in the coming years? Answers to these and many other more specific questions can be found in the "Development Plan of RMK for 2005–2008" which is available on the web site of RMK at <http://www.rmke.ee/>.

The development plan is definitely not a document which is drafted every four years and forgotten in the interim. The process of strategic development of RMK is continuous as the development plan is monitored, updated and approved annually by the Supervisory Board of RMK, thus ensuring the stable and sustainable development of RMK.





forest management

RMK is a prudent manager of forests

Forest management is the most important area of activity for RMK, involving silvicultural activities and use, survey and management planning as well as protection of forests. The area is supervised by the forest management department of RMK, which is divided into five regions, which in turn are divided into 66 forest districts all over Estonia. Since summer 2004, forest survey and management planning has been coordinated by the department of forest survey and management planning.

The functions of the area of forest management include protection and guarding of state forests, planting and tending of new forests, organisation of forestry work, sale of forests and timber and planning of forest management. RMK maintains forest roads and drainage systems. In summer, forests face a high fire risk and at that time RMK makes sure that forests are kept safe from fire.

Planting of new forests

RMK has to manage forests in such a way that the area and volume of state forests do not decrease and their quality and value increase. Therefore, the felling volume cannot exceed the increment and all felling areas must be reforested. Each year RMK plants nearly 7,000 hectares of new forests. In 2004, RMK carried out seeding in the state forests on 885 hectares and planted new forests on 4,027 hectares. Natural regeneration was assisted on 1,880 hectares of the state forest land.

In spring, more than 20,000 volunteers and participants in the Song Festival planted trees on 344 hectares. In the planting campaign, which was organised to celebrate the accession of Estonia to the European Union, spruce plants were planted on 304 hectares, pines on 23 hectares, birches on 11 hectares and other tree species on 6 hectares. In the course of the campaign, people planted a total of one million trees. RMK was in charge of the preparation, coordination and carrying out of the event. The majority of the employees of RMK all over Estonia participated in the campaign. During the campaign, tens of thousands of Estonians realised that forest management involves not only felling but also planting and tending of forests.

Decrease in cutting volume

The majority of the felling carried out by RMK is regeneration cutting and silvicultural improvement cutting. Similarly to previous years, RMK's cutting volume decreased in 2004 as well. In 2004, a total of 2.5 million cubic metres of forest was felled in the state forests, of which 1.68 million cubic metres was regeneration cutting, 0.76 million cubic metres improvement cutting and 0.06 million cubic metres other types of cutting.

One of the reasons for the decrease in the volume of felling in the state forests is imposition of additional restrictions related to nature conservation. In 2004, the proportion

of protected forests increased from 14.4% to 14.7%, while the proportion of commercial forests fell from 67.3% to 67%. Another reason for the decrease in felling is the age structure of the state forests — the proportion of forests which are mature for felling has in recent years been steadily declining.

Forestry work carried out in environmentally friendly manner

RMK has set itself environmental protection objectives and observes them in all its activities. These objectives involve all employees on different levels of the organisation. The ability of RMK to protect the environment is evidenced by the environmental management certificate ISO 14001 and FSC forest management certificate issued to the organisation. Since 2003, RMK employs the late spring/early summer cutting strategy, halting most of cutting operations during the period of reproduction or raising of litter of wild animals. Cutting in the state forests was halted in the period from 15 April to 15 June in 2004 as well.

In carrying out forestry work, RMK follows good forest management practices passed on from generation to generation and makes an effort to cause minimum damage to these parts of nature which are not the object of the specific work performed. In order to prevent possible damage to the environment by obsolete forestry equipment, three depreciated forestry tractors and one environmentally hazardous filling station were eliminated in 2004.

Record prices in timber market

RMK receives the most significant portion of its revenue from sales of timber and therefore the success of several other objectives of the organisation is dependent on the situation in the timber market. Since market demand has been on the increase in recent years, the prices of both standing crop and timber rose in 2004 as well. The year 2004 will go down in history as the year of record timber prices in Estonia, with demand for all species. RMK sold the right to cut standing crop in the amount of 0.39 million cubic metres at an average price of EEK 274 per cubic metre and 1.77 million cubic metres of timber at an average price of EEK 463 per cubic metre.

For the third year, RMK has managed to maintain the FSC certificate of sustainable forest management and

supply chain, which is why nearly 1.8 million cubic metres of timber and 0.4 million cubic metres of the right to cut standing crop were sold under the "green label".

RMK invests in forests

Most of the revenue earned by RMK is re-invested in forests so as to increase the value of forests both directly and indirectly. In 2004, RMK invested EEK 63.8 million in forest management, most of which was invested in forestry improvement. Carrying out forestry improvement increases the growth rate and productivity of forests.

In 2004, RMK increased investments in renovation of drainage systems and roads. Many drainage ditches constructed 30 years ago are filled with sediment, culverts have sunk and are clogged up and beavers have been busy constructing dams. Without systematic maintenance and renovation the work done in previous years becomes futile. As forest roads are an integral part of forestry improvement, transport conditions in the forests improved in the course of the work performed as well.

Improvement of forestry information system MIS

Since 2001, RMK uses forestry information system MIS, the development of which was based specifically on the needs of the organisation. The main purpose of the implementation of MIS was to simplify administration of the main activity of RMK by combining different databases from forestry information to bookkeeping.

Over the years, the amount of data on and complexity of the forestry information system has increased which is why a new software solution became necessary. At the beginning of 2004, RMK started specifying the terms of reference of MIS 3.0 and continued development of the improved forestry software throughout the year. As a result of intense and thorough work, MIS 3.0 is in use today, although getting used to and full implementation of the new software is going to take some time. However, work on the improvement of the forestry information system will continue since due to changes in the external environment and internal developments of the forestry sector the business processes are constantly changing as well.

Raivo Völli,
Director of Forest Management:

Good year in spite of bad weather



The year 2004 was a good and stable one for forest management. Much was done over the year to ensure stable and proper development of state forests. By participating in various working groups, employees of different regions and forest districts were able to make a contribution to the development of strategic goals and action plans of RMK's forest management.

The year 2004 will definitely be remembered for extremely rainy weather in the summer. Bad weather had a considerable impact on the activities of forestry workers and caused problems in logging. An exciting challenge for all people employed in the area of forest management was carrying out the tree planting campaign in spring. Overall, the campaign was a complete success. The year 2004 will also be remembered for the unexpected rise in timber prices, which had a favourable effect on our economic results and provided additional resources for forest development.

FOREST MANAGEMENT IN 2004

REFORESTATION (ha)	2002	2003	2004
Seeding	808	1,030	885
Planting	3,959	3,977	4,027
Assisted forest regeneration	2,242	2,372	1,880
Improvement of crops	1,626	1,781	1,727
Tending of crops	10,160	11,193	12,307
Conversion of renewed areas to young growth	8,402	6,651	9,313
Lopping of trees			554

CUTTING Type of cutting	2002		2003		2004	
	Area (ha)	Cutting volume (m ³)	Area (ha)	Cutting volume (m ³)	Area (ha)	Cutting volume (m ³)
Regeneration cutting	8,168	1,961,752	7,216	1,866,897	6,842	1,675,904
incl. clear cutting	7,871	1,908,910	6,738	1,804,496	6,167	1,610,513
Selection cutting	222	11,249	209	12,194	184	8,698
Improvement cutting	35,008	934,667	29,965	890,135	26,958	755,630
incl. cleaning	9,712	136,861	10,095	121,325	10,495	126,062
thinning	8,755	483,055	9,953	586,514	8,940	519,952
sanitary cutting	16,541	314,752	9,917	182,297	7,523	109,616
Deforestation	124	23,180	527	74,505	329	58,870
Theft and illegal cutting	183	12,794	160	12,365	82	5,277
Total	43,704	2,943,642	38,077	2,856,096	34,394	2,504,379

FOREST MANAGEMENT
INVESTMENTS 2004

Total investments EEK 63.8 million, of which:

forestry improvement	67%
related to reforestation and timber transport equipment and other production	11%
buildings and structures	10%
improvement of vehicles of operation managers	10%
IT and office equipment	2%

BIGGEST CUSTOMERS ACCORDING
TO PURCHASE QUANTITIES 2004

Purchases of standing crop and timber

Mets & Puu AS	312,155 m ³
Stora Enso Mets AS	236,822 m ³
Nor-Est Wood AS	192,452 m ³
Lignator AS	75,630 m ³
Holmen Mets AS	59,528 m ³



hunting management

Taking care of wild animals

Forests are the habitats of numerous species of animals and birds. In maintaining the biological diversity of forests, monitoring and regulating the population of wild animals is very important. It is the task of RMK's hunting management department to ensure the diversity and viability of wildlife on state forest land.

The function of the hunting districts administered by RMK is to maintain the optimum number of wild animals, balance of populations and the necessary natural environment for wild animals. Another objective of the RMK's hunting management department is to develop general hunting culture as well as raise hunting ethics and awareness. Using its hunting facilities, RMK organises theoretical and practical hunting training and refresher courses. Under the supervision of RMK, hunters who respect humane hunting can hunt all wild animals included in the list of the Estonian wild game.

Sufficient wild game resources

In 2004, RMK managed 385,000 hectares of hunting grounds through four hunting management divisions. The survey and management planning of the hunting grounds on islands was carried out by the RMK's islands' region of forest management. For hunting management, the year 2004 lived up to expectations – the hunting grounds of RMK were in good condition and the large game population remained within optimum and maximum limits. In 2004, as many as 1,590 elks, 4,202 roe deer, 182 red deer, 2,125 wild boars, 111 lynx, 89 brown bears, 15 wolves and 1,322 beavers were counted in the hunting districts of RMK.

For the purposes of preservation of the diversity of game populations, RMK consistently carries out various types of wild-game protection and care activities. In 2004, RMK maintained 231 wild game troughs, 297 wild boar feeding areas, 463 high-seats and hunting platforms and 912 wild game salt stones. RMK established a total of 169 hectares of forage fields for wild animals.

Continued respect for hunting traditions

Hunters are countryside lovers who respect forests and wildlife, protect animals and birds and adhere to the principles of hunting ethics. All people who appreciate humane hunting are allowed to hunt on the hunting grounds managed by RMK. In 2004, a pleasant hunting experience on the hunting grounds of RMK was enjoyed by 1,043 hunters, 38% of whom were Estonian hunters. Most of the foreign visitors were Finnish and German hunters.

The objective of hunting on the state forest land is maintaining the permitted number of wild game, which is why the hunting quota has increased year by year. Hunting of roe deer has increased the most since their number is rising throughout Estonia. On average, 4.8 large wild animals were hunted per 1,000 ha of hunting grounds in 2004. RMK organised in its hunting districts 581 different collective hunts with 3,629 participants. Individual hunts of large game were carried out on 2,654 hunting days and of small game on 2,139 hunting days.

Beautiful trophies for hunters

Besides the opportunity for active recreation, civilised hunting also offers a lot of emotional and beautiful hunting moments. Magnificent hunting trophies are important as well. The year 2004 was a very favourable one for medal trophies – 45 trophies received a medal.

In the hunting season of 2004, hunters on the hunting grounds administered by RMK caught 858 wild boars, 507 elks, 477 roe deer, 162 beavers, 267 foxes, 8 lynx, 16 red deer and 4 wolves. Elk trophies were the most beautiful ones. The antlers of an elk shot in the Nõva-Kullamaa hunting district by Jaakko Lehto, a visiting hunter, could be regarded as the year's most majestic sign of victory. These antlers were considered worthy of the gold medal and grand prize at the Estonian game trophies exhibition held in Sagadi.

Meat processing plant opened

As a result of an increase in the hunting quota of large game, the quantity of game meat to be marketed has constantly risen as well. In order to alleviate the problems of hunters in processing and sales of game meat, RMK opened a cutting plant in the Mahtra hunting complex in 2004. At the moment, the meat processing plant processes and packages meat of large game such as roe deer, wild boar and elk hunted in RMK's own hunting districts.

In the coming years it is planned to process and market up to a third of the hunted large game as cut meat. The production of a new enterprise – vacuum-packaged game meat – is sold primarily to catering establishments.

hunting management

Hunters can also buy the meat of the game they have hunted. People have the opportunity to try game meat dishes in the holiday homes and hunting lodges of RMK as well.

Hunting with camera gains in popularity

Since 1997, RMK organises the animal photo contest “Bloodless Hunt” in cooperation with the Estonian Museum of Natural History. The competition is carried out in the same manner as real hunts but instead of guns people have cameras, and beautiful images of animals serve as trophies. RMK’s professional hunters help to make the hunt a success, guiding the photo hunters and

taking them to key hunting areas. Each year one animal is chosen as the target but all other animals are hunted with a camera as well.

In spring 2004, the best Estonian nature photographers gathered in the Nõva hunting district where lynx was the object of the bloodless hunt. A record number of photographers, 29 in total, participated in the hunt with a camera. For the first time in the history of the “Bloodless Hunt”, the participants spent a night out in the open air. In addition to taking photos of animals, people also watched slides, videos and nature films together.

Kalev Männiste,
Head of the
Hunting Management Department of RMK:

New goals for hunting management



With Estonia’s accession to the European Union, our hunting management became a part of the union. This has brought tangible benefits for hunting legislation in Estonia: 2004 saw the enforcement of the EU firearms pass, which makes travelling with hunting weapons considerably easier for the citizens of the EU, including Estonian hunters. Motions to amend the Weapons Act have been initiated with the aim of harmonising the rules for the use of hunting weapons in Estonia with similar rules in the other EU member states. There will also be fundamental changes in the hunting regulations for organising large game hunting. All these future amendments to legislation were taken into account in the preparation of RMK’s hunting management development plan for 2005–2008 and in the implementation of the wage system.

By the end of 2004, permits in proof of the right to use a hunting district had been issued to all hunting districts used by RMK. It is important for us to successfully perform the functions established in the Hunting Act on the hunting grounds at the disposal of the state. By the end of the year, the structure of the field of activity had changed – hunting management had become a single structural unit within the forest management department, which enables us to continue to efficiently manage the hunting grounds of the hunting districts.





recreation management

Informed recreation in forest

Nature lovers have access to state forests 24 hours a day and 365 days a year – everyone has the right to enjoy spending time in forests, without damaging the environment, of course. The recreation management department of RMK is responsible for making sure that all people can enjoy spending time in forests, stay informed and at the same time learn to preserve the natural environment.

The recreation management department of RMK organises its activities through various units, which consist of RMK's ten recreation areas, two countryside centres, five houses located in the countryside and the Sagadi countryside school and museum. The general objective of the area of recreation management is to ensure that people spending time in the countryside have diverse opportunities for forest-related recreation, while taking into account the environmental capacity and maintaining the biological diversity of forests. However, these activities are effective only if people's awareness of the countryside is consistently improved as well.

Creation of opportunities for forest-related recreation

RMK has selected ten recreation areas all over Estonia and prepared them for nature lovers – RMK has set up camping sites and hiking trails, erected observation towers and hiking huts as well as put up information boards and signposts. RMK's recreation areas are gaining in popularity and the number of visitors continues to increase year by year. According to surveys carried out in 2004, 81% of people in Estonia were aware of the opportunities available in RMK's recreation areas and more than a half of the people had used them as well.

Recreation areas with the largest number of visitors in Estonia are the coastal areas, which is why in 2004 RMK focused on the planning and preparation of these areas. Last year, RMK used a total of EEK 3.5 million for the construction of new objects and the reconstruction of existing objects in its recreation areas. EEK 5.1 million was spent on the management of recreation areas.

Planning of recreation areas is based on surveys

An increase in the number of people using the state forests may endanger the landscape of the recreation areas used the most. To protect areas with the highest number of visitors, it is necessary to regulate usage of different recreation areas and increase their capacity. In order to make better development and maintenance decisions, RMK carries out a three-part survey in its recreation areas, studying the expectations of visitors, the number of visitors in the recreation areas and the impact that the visitors have on the landscape. If necessary, RMK implements protection

measures and provides information to visitors as well as directs them to other hiking trails or recreation areas.

At a recreation conference held in Rovaniemi in 2004, the audience showed great interest in RMK's presentations on research and analysis in the field of recreation management. At the same time, employees of RMK became members of an international working group focusing on the development of visitor monitoring methods in the Nordic countries and the Baltic States.

It is necessary to raise people's awareness of nature

In order to preserve beautiful forest landscapes it is necessary to guide people to act in an environmentally friendly manner. To encourage a sustainable way of thinking, RMK operates five nature houses, two nature centres and the Sagadi nature school. Nature houses are located in areas with many places of interest nearby and with lots of opportunities for activities in nature.

As many as 55,000 people participated in various events, programmes and competitions promoting nature awareness organised by RMK's recreation areas, nature houses and nature centres in 2004. In December, RMK made available a multimedia CD with information about opportunities for spending time in the state forests and protected areas. The CD contains maps, video material and other information about opportunities for spending time in forests and is an important educational material. Over the year, EEK 2.9 million was used for the activities of RMK's nature houses and nature centres and for promotion of nature awareness of the public.

Providing information about opportunities for spending time in nature

The activities of RMK's recreation management department have the objective of keeping people informed of the opportunities for recreation in the state forests. For this purpose, RMK established information centres by its nature houses so that nature lovers could ask practical advice about recreation or hiking in the state forests as well as other information about local events or places of interest. In 2004, RMK opened a new information centre in the Tallinn Zoo. Over the summer, 25,000 people visited the information centres of RMK's recreation areas.

recreation management

In spring 2004, RMK published a collection of maps of recreation areas. The collection is very practical, with “tear-out” maps which include all campfire sites, picnic sites and hiking trails of a recreation area. Maps with information about recreation areas were completed just in time for the fair “Summer 2004” which was held in Tartu and in which RMK’s recreation management department also participated, providing information about opportunities for spending time in the state forests. In 2004, RMK invested EEK 3 million to inform the public about opportunities for forest-related recreation.

Mapping of cultural heritage objects

There is a lot hidden in our forests which has value in terms of cultural history – from ancient settlements and stones of worship to sacred grove trees and ancient

fields. Appreciation and exhibition of cultural heritage objects is crucial in the formation of the identity of a nation – through ancient objects we learn more about our roots and at the same time give the next generations the opportunity to get to know the past.

In 2004, RMK started mapping the cultural heritage objects of the Nõva recreation area. The process provides an overview of what kind of significant objects (forester sites, tar kilns, old forest crops, etc.) are located in the recreation area. This in turn makes it possible to find new and exciting ways to restore and exhibit these objects and put them into service. In summer, the old Laugu forester’s farm was restored in the Saaremaa recreation area and it will start its new life as the forest house and information centre of the recreation area.

Marge Rammo,
Head of the Recreation Management Department:

Opportunities for nature-related recreation are developing rapidly



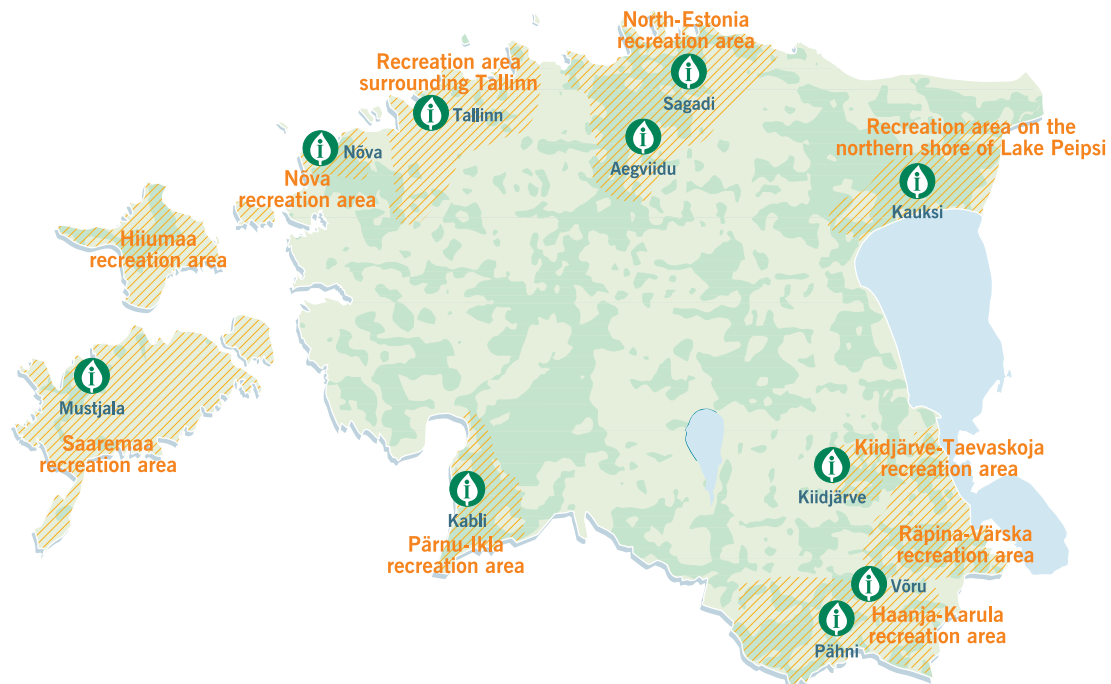
The set of RMK’s recreational facilities is becoming an integrated system of spending time in nature. The number of users of the recreational facilities of RMK has increased considerably and that is why the most important goals in 2004 were provision of information about opportunities and promotion of reasonable use of opportunities. The most important events in this regard were opening of a unique information centre of RMK in the Tallinn Zoo, completion of the CD promoting sustainable forest-related recreation and publication of a collection of very practical maps of recreation areas.

For the development of activities valuing forest-related recreation and protection of the environment it is important to participate in various cooperation projects. We operate in close cooperation with the local governments, environmental authorities and various conservation areas. There is also regular cooperation between RMK and foreign partners. The objective of foreign contacts is first and foremost harmonisation of the levels of opportunities for forest-related recreation offered in Estonia and in other European countries.

RECREATION MANAGEMENT IN 2004

- In 10 recreation areas, 347 different objects have been prepared and placed at the disposal of nature lovers, including:
 - 72 marked nature trails, 520 km in total (hiking trails, study trails, skiing trails, cycling trails)
 - 54 picnic sites
 - 83 campfire sites
 - 56 rest areas
 - 40 camping sites
 - 11 observation towers
 - 10 forest houses
 - 14 forest huts
 - 13 holiday homes and hunting lodges
- 55,000 people participated in the events organised in the recreation areas and nature houses
- 25,000 people visited the information centres of the recreation areas
- 99 papers were submitted to the competition "Joy and Sorrow of Forests"
- More than 700,000 people visited the recreation areas of RMK
- 10,000 holiday-makers used the forest houses in the recreation areas
- 5,172 customers used the services of holiday homes and hunting lodges
- Visitors of the recreation areas used 1,449 m³ of firewood
- Visitors of the recreation areas left 2,275 m³ of trash in the trash cans

RMK nature centre information desk





nursery management

In the name of new forests

The nursery management department of RMK plays an important role in guaranteeing new generations of forests. The function of the staff of the department is to produce high-quality reforestation material primarily for establishment of state forests. The nursery management department focuses on two main fields of activity – growing of forest plants and seed management.

The functions of the area of nursery management include growing of plants necessary for forest planting, collection of seed and management of nurseries. RMK grows primarily spruce plants and pine seedlings, and, to a lesser extent, birch plants. The proportion of other deciduous trees in all plant production is less than 1%. The area of nursery management is administered by the nursery management department located in Tartu.

Production of high-quality forest planting material

Forest plants are grown by 18 forest districts of RMK and the joint nursery formed on the basis of six larger nurseries. The units growing forestry plants own a total of 125 hectares of production land and nearly 5,000 m² of greenhouse space. RMK grows plants mainly in open

field nurseries. The production volume of planting material in RMK has remained the same over the years – the annual volume of plant production is 10–11 million plants in total.

In 2004, RMK grew 6.5 million spruce plants, 3 million pine seedlings and 0.5 million birch seedlings. The objective of the nursery management department of RMK is sustainable production of a sufficient amount of reforestation material primarily for the state forests. If there is demand, the nursery department also grows plants for customers outside RMK such as forest companies and forest associations. In 2004, the system of sales contracts of plants was launched, which has considerably improved the timing of purchase and sale agreements of plants.

Esko Krinal,
Head of the Nursery Management
Department of RMK:

Forestry in Estonia is getting organised



The year 2004 provided positive knowledge that forest owners have again started to take care of their property and establish new forests. Hence we can say that the time of front men in private forestry in the post-privatisation and restitution period is coming to an end, and interest to take care of forests will be restored. The most important fact which is probably not apparent from the numbers in the yearbook is that there is a positive attitude in the society towards both RMK and forestry as a whole. Forestry is not synonymous with “a tough guy with a saw” any more but means establishment of a new generation of forests and long-term tending of forests.

We have to continue to help forestry workers understand that plants cannot be bought like loaves of bread in a shop. The growing cycle of plants is one to four years and their realisation period is rather short. The need for plants must be planned at least a year in advance and agreements must be made with plant growers in order to make sure that all afforestation plans can be fulfilled.

Seed management ensures reserve for forestry sector

Seed management in RMK is a field of activity of forest districts, the joint nursery and contractual partners. On average, RMK annually collects 1,500 kg of forest stand seed and 500 kg of seed orchard seed from conifers and maintains 177 hectares of seed orchards. Forest stand seed is collected by forest districts and contractual partners. Maintenance of seed orchards and collection of seed from them is the task of the joint nursery and contractual partners.

RMK ensures that the Estonian forestry sector is provided with a sufficient reserve of forest seed with the best hereditary properties. The main users of forest seed are the forest districts of RMK, plant growers and private customers. In 2004, the number of purchases of forest seed by private customers increased considerably. 920 kg of forest seed was sold to users outside RMK. Over the year, a total of 677 kg of forest seed was used in the state forests and 457 kg in the seed orchards of RMK.

Results unaffected by bad weather

Despite cold weather and heavy rainfall in the summer, 2004 was a stable and unsurprising year for the plant growers of RMK. All plans made by the department were fulfilled and despite bad weather conditions, the plant growers managed to produce a required amount of plants for the renewal of the state forests. Still, due to bad weather in the summer, the amount of plants offered for private forests in spring 2005 will be somewhat smaller.

In 2004, RMK marketed reforestation material in the amount of EEK 11.7 million. EEK 10.1 million were made by sales of forest plants and EEK 0.8 million by sales of seed. Other revenue amounted to EEK 0.8 million. In 2004, RMK invested EEK 1.6 million in nursery management. The Rápina nursery acquired a new greenhouse and the Kullenga nursery purchased a cultivator, repaired an old greenhouse and started renovation of the boiler room of the cone drier.

NURSERY MANAGEMENT IN 2004

- 11 million plants were planted in state forests, including:
 - 3.6 million pine plants
 - 6.3 million spruce plants
 - 1.1 million birch plants
- RMK's nurseries grew 9.9 million plants, 9.2 million of which were planted in the state forests
- 1.8 million plants were purchased from private producers
 - 0.60 million pine plants
 - 0.47 million spruce plants
 - 0.70 million birch plants
- 0.70 million spruce plants were sold to private forest owners
- In spring 2004, 457 kg of seed was sown on 7.6 hectares of land for the production of plants; by autumn, 11 million small plants had sprouted from the seeds
- 7.1 million spruce seedlings were replanted on 23 hectares
- The total number of plants (seedlings and young plants) growing in RMK's nurseries at the end of the year was
 - ca 20 million in the joint nursery
 - ca 8 million in the nurseries of the forest districts





consulting services

Management of forestry processes from idea to implementation

RMK's long-term experience in forest management has enabled the organisation to gain a lot of know-how. In order to apply its valuable knowledge and skills better, RMK started to provide consulting services for the management of various forestry processes on both strategic and practical levels in 2003. The application of know-how and sales of forestry-related consulting services is the task of the consulting department of RMK.

RMK's consultations provide innovative solutions to the development of business processes, companies and regions of forestry and to the management and evaluation of relevant projects. Also, the consulting department supports the development activities of RMK.

Flexible consulting services

RMK's consulting department operates as a profit centre – as a small coordinating team which has a wide network of partners both within the organisation and among foreign partners. Today, most of the foreign partners of RMK are third sector organisations and state agencies.

Depending on the project type, the consulting department forms a team comprised of the best specialists for the performance of each task. The activities of the team are supervised by RMK who are also responsible for the quality and timely performance of the work. Taking into

account the needs of the customer, the range of services provided is very wide and flexible. RMK provides consulting services for the development of single processes and business plans as well as companies and whole sectors or regions.

Busy and successful year

In 2004, the consulting department completed eight projects and prepared four new projects for 2005. For RMK's consulting services, last year can also be called a year of development plans. Significant and effective contributions were made to the drafting of the development plans of private forestry, the Estonian Society of Foresters and RMK.

During 2004, the consulting team developed a new methodology which allows for assessing the value of state forests as a biological asset. The methodology is based on the international accounting standard and also serves

Heiki Hepner,
Head of the Consulting Department of RMK:

Innovation and development are keys to success



Development activities and innovation have always been keys to success. This must be emphasised especially at the beginning of the 21st century when technology is developing extremely rapidly. Although it is a relatively conservative area of activity, forestry cannot overlook development activities and innovation. A special catalyst in this regard is the introduction of increasingly strict environmental protection requirements which force to look for technologies which are more environmentally friendly as well as for new business areas to replace the old ones. Figuratively speaking, you must know how to eat your soup even if the bowl has been turned upside down.

The first years of activity of the consulting department of RMK have proved that provision of consulting services and carrying out development projects is necessary. It is pleasant to note that a flexible service is beneficial in several ways – we can be useful to both our organisation and cooperation partners, as well as continuously improve and develop in finding new solutions.

as an example for other managers of state forests as well as forest owners who as legal persons are subject to the obligation to register forests as biological assets. Correct and fair recording of the value of a forest simplifies assessing the cost of different economic constraints, organises transactions with timber and forest land and allows for assessing the gross capital (property, wealth) of forest owners according to internationally recognised principles.

Using the developed methodology, the value of commercial and protection forests at the disposal of RMK was assessed to be more than EEK 26.5 billion as of 31.12.2004.

Value of state forest as biological asset

Asset class	Cost
Managed forest	34,874.9
Calculated logging cost of managed forest	-8,283.6
Calculated sales cost of managed forest	-28.6
Sales cost of 2004	-0.8
Damage caused by illegal cutting	-1.7
Value of nurseries	15.6
Value of seed orchards	3.6

Launch of new projects

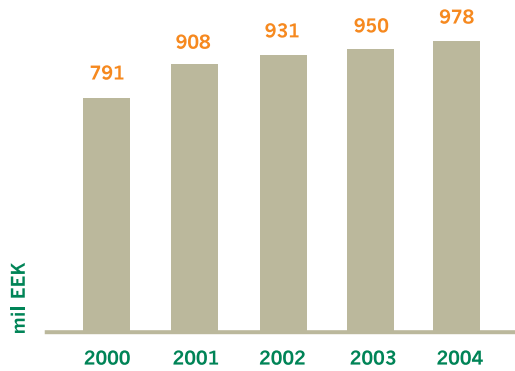
In 2004, several very different and extensive projects were launched. The consulting department launched a new project the objective of which is to develop a county forestry plan methodology. The methodology is based on the forestry development plan, county plans and development plans of the local governments. The objective of another project which was started is to assess the possibilities for use of logging waste generated in state forests and the techniques employed. This project aims to chart and create conditions for obtaining additional value from forests and to increase the proportion of environmentally friendly renewable energy in Estonia.

During the year, the department made plans for the environmental conference "Preserve or Pollute" to be organised in spring 2005 by RMK's consulting services. Work on the creation of the Estonian forestry e-training portal was started as well. The portal is developed in cooperation with the Luua Forestry School and will create conditions for the use of up-to-date resources and possibilities in the provision of forestry education. An interesting project launched in 2004 is related to the cultural heritage objects of forests. In the framework of the project it is necessary to make an inventory of objects of cultural heritage, plan the protection and exhibition thereof with other recreational objects, and find the financial resources for carrying out this work.

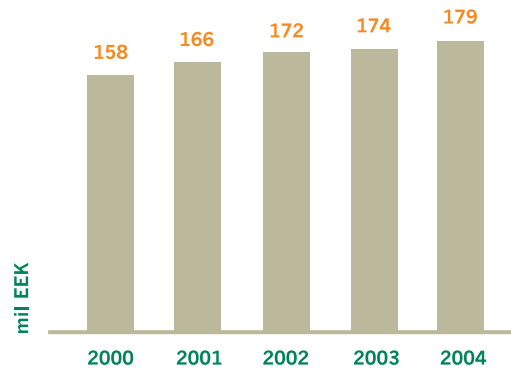


Main economic indicators of RMK, 2000–2004

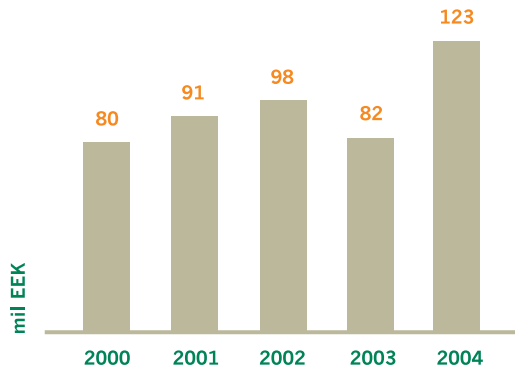
TURNOVER



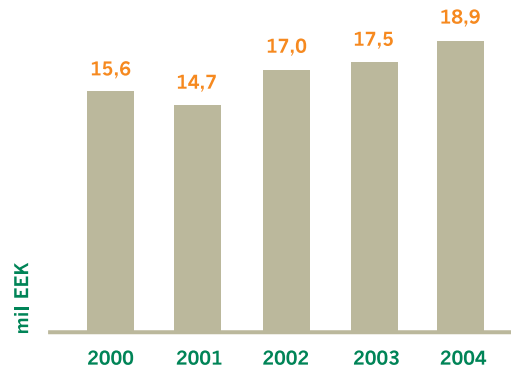
REVENUE FROM FORESTS



INVESTMENTS



EXPENDITURE ON RIGHT OF PUBLIC ACCESS



Jaanus Laas,
Chief Financial Officer of RMK:

Good economic performance



RMK is a profit-making state agency whose objective is not only to earn profit for the owner but also perform state functions directed at the general public. So far, RMK has developed towards increasing the efficiency and improving the performance of the organisation. In 2004, RMK's turnover was EEK 978 million, a 3% increase on 2003. The bulk of the turnover came from sales of timber and standing crop (EEK 818 million and 100 million, respectively). Turnover from other activities (including transport of timber, sales of forest planting material and hunting) amounted to EEK 60 million.

The proportion of sales of timber in forestry production has increased from 50% to ca 80% during the years of activity of RMK; the proportion of sales of standing crop has correspondingly decreased. Prices of timber in Estonia have risen by 32% during the period in question. The number of personnel of RMK has decreased by 44%, the rise in administrative expenditure, however, has been only 11%. This has resulted in an increase in both turnover and revenue from forests as well as in net profit. In 2004, revenue from forests transferred to the state budget amounted to EEK 178.6 million. RMK's profit in 2004 was EEK 95 million.

Over the years, these changes have enabled the organisation to increase investments in raising the value of forests and promoting nature education and the right of public access. In 2004, RMK used EEK 123 million for acquisition and improvement of fixed assets, of which EEK 60.7 million was related to production (forestry improvement, reforestation and logging equipment, transport of operation managers, etc.) and EEK 57.8 million was related to administration (information technology, transport and job creation).

Balance sheet

(EEK)	31.12.2004	31.12.2003
ASSETS		
Current assets		
Cash at bank and in hand	268,668,580	216,039,653
Trade receivables	61,285,672	36,091,884
Other receivables	562,395	670,392
Accrued income and prepayments	7,275,895	13,436,278
Inventories and goods for resale	17,902,094	40,359,233
Total current assets	355,694,636	306,597,440
Fixed assets		
Miscellaneous long-term receivables	208,536	244,792
Tangible assets	372,764,788	331,269,573
Intangible assets	13,264,923	11,941,586
Total fixed assets	386,238,247	343,455,951
TOTAL ASSETS	741,932,883	650,053,391
LIABILITIES AND OWNER'S EQUITY		
Liabilities		
Current liabilities		
Debts	6,736	6,258,782
Prepayments received for goods and services	205,837	690,235
Trade creditors	14,285,257	10,618,442
Other short-term payables	2,172,309	1,620,131
Taxes payable	14,488,833	12,688,503
Accrued expenses and deferred income	32,365,676	26,284,103
Other liabilities	15,684,000	15,684,000
Total short-term liabilities	79,208,648	73,844,196
Long-term liabilities	1,236,423	9,716,419
Total liabilities	80,445,071	83,560,615
Net assets		
State capital	190,854,853	190,817,959
Retained profit	375,674,817	280,678,536
Net profit for the financial year	94,958,142	94,996,281
Total net assets	661,487,812	566,492,776
TOTAL LIABILITIES AND OWNER'S EQUITY	741,932,883	650,053,391

Income statement

(EEK)	2004	2003
REVENUE		
Sales revenue	978,008,638	949,922,467
Other revenue	7,381,711	7,140,483
Variation in inventories of finished goods and work in progress	-22,315,586	-14,829,756
TOTAL REVENUE	963,074,763	942,233,194
OPERATING COSTS		
Goods, raw materials and services	481,390,636	494,703,200
Other operating costs	138,493,991	106,170,690
Staff costs		
Wages and salaries	141,263,920	141,953,086
Social security costs	51,123,565	50,700,278
Write-downs of fixed assets	62,032,879	58,036,133
Other operating costs	755,469	337,268
TOTAL OPERATING COSTS	875,060,460	851,900,655
Operating profit	88,014,303	90,332,539
FINANCIAL INCOME AND EXPENSES		
Interest expense	-613,230	-1,122,641
Other financial income and expenses	7,557,069	5,786,383
Total financial income and expenses	6,943,839	4,663,742
Net profit for financial year	94,958,142	94,996,281

Translation of the Estonian Original

**AUDITOR'S REPORT TO THE SUPERVISORY BOARD OF RIIGIMETSA
MAJANDAMISE KESKUS**

We have audited in accordance with International Standards on Auditing the financial statements of state with-profit institution Riigimetsa Majandamise Keskus (hereafter "RMK") for the financial year ended December 31, 2004, from which the accompanying summarized financial statements, presented on pp. 38-39, were derived. In our report dated March 28, 2005 we expressed an opinion that the financial statements, from which the accompanying summarized financial statements were derived, presented fairly, in all material respects, the financial position of RMK as of December 31, 2004, and the results of its operations and its cash flows for the financial year then ended in accordance with Estonian generally accepted accounting principles, except for the effect of such adjustments, if any, as might have been determined to be necessary, had we been able to obtain sufficient evidence considering the matter described in the following paragraph.

We have not audited the financial statements for the year ended December 31, 2003, as that date was prior to our appointment as auditors for RMK. We were unable to satisfy ourselves as to the balances at that date by other audit procedures. The balances at of December 31, 2003 enter into the determination of results and cash flows for the year ended December 31, 2004.

In our opinion, the accompanying summarized financial statements are consistent, in all material respects, with the financial statements from which they were derived and on which we expressed a qualified opinion.

For a better understanding of RMK's financial position and the results of their operations for the period and of the scope of our audit, the summarized financial statements should be read in conjunction with the financial statements from which the summarized financial statements were derived and our audit report thereon.

Tallinn, May 27, 2005



Hanno Lindpere
Ernst & Young Baltic AS



Erki Usin
Authorized auditor

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